

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary    Public

**Date:** 4/16/2013

**GAIN Report Number:** SA1304

## Saudi Arabia

**Post:** Riyadh

### Saudi Rice Market Update

**Report Categories:**

Grain and Feed

**Approved By:**

Hassan F. Ahmed, U.S. Embassy Riyadh

**Prepared By:**

Hassan Ahmed and Hussein Mousa

**Report Highlights:**

The prices of the Indian Basmati rice in the Saudi market skyrocketed in recent weeks, due to concerns over supply shortages and a huge Iranian demand for Indian rice varieties. In the first three months of 2013, the average retail price of Indian Basmati rice rose almost 40 percent, while prices of other rice varieties of other origins increased by about 5 percent. Media reports accused rice importers of price gouging and market manipulation, while rice traders blamed supply and demand forces for the price hikes and overdue cyclical price corrections in the global rice market. Prices of the Indian Basmati rice in the Saudi market are expected to continue rising for the next few months and could reach \$1,750 per MT by August, according to Saudi rice importers. With the recent increases in their price competitiveness, U.S. rice exports to Saudi Arabia are expected to rise significantly in 2013 and could reach 150,000 MT, compared to 115,000 MT in 2012.

The prices of the Indian Basmati rice varieties in the Saudi market skyrocketed in recent weeks over concerns over supply shortages and increased Iranian demand for Indian rice varieties. The average price of the 40 kg of Indian basmati rice sack, for example, soared from \$50 in January 2013 to \$70 in the first week of April, an increase of about 40 percent in a three-month period. However, retail prices of rice varieties of other origins such as the United States, Pakistan and Thailand; experience much smaller increases in prices of about 5 percent during the same period.

The sharp price increases in the Indian Basmati rice have generated extensive media coverage of this issue and raised concerns among Saudi consumers about future prices and availability of the most popular rice variety in the Saudi market. Some newspaper editorials criticized the local rice importers of the price gouging and market manipulation. Rice traders, however, have blamed global rice supply and demand situation for the price hikes, and explained that these price increases are just overdue cyclical price corrections in the global rice market. The Saudi government is closely monitoring rice prices in the local market and has indicated that it will intervene, if necessary, to ensure adequate rice supplies in the market at affordable prices to the Saudi consumers of this strategic commodity.

Saudi rice imports in 2012 were estimated at about 1.2 million MT, with India supplying about 860,000 MT, including an estimated amount of 620,000 MT of Basmati long grain and Sella (parboiled) rice varieties. Rice importers attribute the current tight supply of the India basmati rice in the Saudi market to a huge Iranian demand for the Indian rice varieties in recent months, as well as to a switch by the Indian rice farmers towards the production of Basmati rice hybrid 1121 variety, which has a much higher yield and is preferred by Iranian buyers. Iran has reportedly purchased the entire 2012 production of India's 1121 hybrid rice variety estimated at 1.6 million MT (about 40 million bags of unprocessed raw rice). There has been also a big increase in India's exports of Basmati rice to other new market destinations like the EU and China which offer attractive export prices for the Indian varieties. These factors together have resulted in a decline in the available supply of the traditional high quality Basmati rice varieties preferred by the Saudi consumers.

Our trade sources indicate that the significant decline in the supply of the Basmati rice varieties in the Saudi market has been accompanied by sharp increases in their C&F prices, ranging between 20 and to 35 percent in the past three months. According to trade contacts, the import price of high quality long grain white Indian Basmati rice increased from \$1,300 per MT in January 2013, to \$1,580 per MT in early April, an increase of 22 percent. The price of Sella Basmati rice was also up by about 32 percent, from \$1,100 to \$1,450 per MT, in this three-month period. It should be noted that the import price of the U.S. long grain parboiled rice, which usually competes with the Indian Basmati Sella rice, has risen by only five percent (currently at \$1,100 per MT) during the same period. Saudi rice importers expect import prices of Indian Basmati to continue rising for the next few months, and could reach \$1,750 per MT by August 2013. With the sharp increases in import prices and the declining supply of Indian Basmati rice, imports are projecting Saudi rice imports from India to decline by 20 percent in 2013. This should provide good opportunities for other rice suppliers such as Pakistan, the U.S. and Thailand

(control about 30 percent of the Saudi rice market) to increase their market shares.

Our trade contacts indicate that Saudi importers are turning to Pakistani suppliers for basmati rice purchases, while seeking long grain parboiled rice shipments from the U.S. and Thailand. Currently, there is a price difference of about 30 percent between the import price of U.S. parboiled (\$1,100) and the import price Indian Basmati Sella (\$1,450), which should provide a good opportunity for expanding U.S. rice exports to the Saudi market in 2013. U.S. long grain rice variety is consumed mostly in the Western and Southern regions of Saudi Arabia. Rice buyers in these regions tend to switch from the Indian Sella rice to the U.S. long grain when price differences become significantly attractive. Given that the current price differences will remain or even increase further, trade analysts project that U.S. rice exports to Saudi Arabia could rise from 115,000 MT in 2012 to about 150,000 MT in 2013.

The Saudi government is concerned about the soaring rice prices in domestic markets and their overall impact on the cost of living for low-income consumers. It has been closely monitoring price trends of rice in the local markets and following supply and demand situation in the international market. It should be noted that in December 2007, during a period of similar hikes in rice prices, the Saudi government intervened when the import price of the Indian Basmati rice reached \$1,600 per MT, providing import subsidy of about \$267 per MT to stabilize local prices. The import subsidy was removed two years later, after a market study then revealed that import subsidies have only benefited rice traders and have not helped in reducing consumer prices in the local markets.